



If P&C Insurance AS

Interim Report

2nd Quarter 2022

Translation from Estonian language

Contacts and signatures

If P&C Insurance AS main field of activity is non-life insurance services.

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Beginning of reporting period:	<i>1 January 2022</i>
End of reporting period:	<i>30 June 2022</i>
Chairman of the Management Board:	<i>Andris Morozovs</i>
Auditor:	<i>AS Deloitte Audit Eesti</i>

If P&C Insurance AS management board has compiled 2nd quarter 2022 interim report which is presented on pages 7-20.

Member of the Management Board	Heinar Olak	/Signature/	31.08.2022
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Member of the Management Board	Tiit Kolde	/Signature/	31.08.2022
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EXPLANATORY NOTE

If P&C Insurance AS (the Company, If) is a wholly owned subsidiary of the leading Nordic property and casualty Insurance group If P&C Insurance Holding Ltd (publ), which in turn is owned by the Finnish company Sampo plc. Sampo plc is listed on the Helsinki Stock Exchange and the Sampo Group is made up of the parent company Sampo plc and its subsidiaries If P&C, Mandatum Life, Hastings and Topdanmark.

If has been offering property and casualty insurance to private individuals and corporate customers in the Baltic markets since 1992. Across the Baltic countries, If has approximately 345,000 policyholders and is one of the leading P&C companies in Estonia. If's products include Property, Liability, Motor, Marine & Transport and Accident & Health insurance.

The Company is registered in Estonia and operates in Latvia and Lithuania through branches. The current corporate structure enables efficient operations with some shared business functions across all three Baltic countries.

This interim report includes the financial indicators of the Estonian unit operated by If P&C Insurance AS and the Latvian and Lithuanian branches.

Results for the first 6 months of 2022

The technical result reduced from €9.9 million in 6 months of 2021 to €7.4 million in 2022, combined ratio increased to 91.4% (86.7%).

Gross premiums written for the first 6 months of 2022 amounted to €107,2 million (€87,3 million in 2021). Premium volume growth (22.9%) is attributable to successful acquisition of new customers and solid renewals of existing customers, both in the large customer segment as well as in Private and Commercial small- and medium customer segments. Premium rates were adjusted substantially during the first 6 months of 2022 due to increasing claims inflation, rate increases contributed substantially to the premium volume growth.

Baltic P&C insurance market premium volume is estimated to have grown approximately by 20% during the first 6 months of 2022 compared to year before.

Total claims cost, including claims handling expenses, increased from €45.9 million in the first 6 months of 2021 to €57,9 million in first 6 months of 2022, loss ratio increased to 67.1% (61.8%). In 2021, the result was extraordinary strong due to a positive court decision related to one large prior year claim. Increased claims cost inflation was affecting the claims cost negatively compared to 2021.

Continuous efficiency improvements and tight cost control, supported by digitalization and automation of Customer interaction processes, reduced the Expense ratio for the first 6 months of 2022 to 24.4% (24.9% in 2021). Total expenses, excluding claims handling cost, increased to €21.1 million (€18,5 million in 2021) mainly due to salary inflation.

The overall net profit before tax reduced to €8.9 million (€11,0) in first 6 months of 2022. Income tax cost was 3.6 million (€3.5) and increased mainly due to the dividend distribution from the profit earned in Estonia which is taxed with corporate income tax in the dividend distribution period.

KEY FIGURES

€000	Q1-Q2 2022	Q1-Q2 2021
Premiums written, gross	107,236	87,280
Premiums earned, net of reinsurance	86,315	74,317
Claims incurred, net of reinsurance	57,877	45,922
Operating expenses ¹	21,055	18,520
Technical result ²	7,383	9,875
Profit before taxes	8,889	11,039
Net profit	5,264	7,494
Combined ratio ³	91.4%	86.7%
Expense ratio ⁴	24.4%	24.9%
Loss ratio ⁵	67.1%	61.8%
Return on investments ⁶	-14.5%	0.6%

Formulas:

¹ Operating expenses	Insurance contract acquisition costs and administrative expenses (+) reinsurance commissions and other income
² Technical result	Premiums earned, net of reinsurance (-) claims incurred, net of reinsurance (-) operating expenses
³ Combined ratio	Expense ratio + loss ratio
⁴ Expense ratio	$\frac{\text{Operating expenses}}{\text{Premiums earned, net of reinsurance}}$
⁵ Loss ratio	$\frac{\text{Claims incurred (incl. Claims handling costs), net of reinsurance}}{\text{Premiums earned, net of reinsurance}}$
⁶ Return on investments (yearly basis)	$\frac{\text{Investment income (-) investment expenses (+) changes in fair value recognised in other comprehensive income}}{\text{Weighted average volume of financial investments in the period}}$

Investment result

The value of financial investments was €282.9 million at the end of Q2 2022 (€276.2million at the end of 2021).

Negative performance trend continued in the second quarter of the year amid rising interest rates and widening spread levels. Inflation numbers remained elevated. Net investment return was €1.51 million (€1.16 million in 2021) in the income statement and -€21.78 million (-€0.29 million in 2021) in other comprehensive income. The total investment return was -14.5% (0.6% in 2021) and 20.27m € (-0.88m € in 2021) in absolute terms.

Performance of the fixed income portfolio got badly hit in line with the increasing interest rates and widening spreads. Our investment focus remains unchanged, i.e., we seek to find new opportunities in the European investment grade bond markets and plan to re-invest maturing bonds into medium term instruments.

Number of employees

As at 30 June 2022, the number of full-time employees was 569 (31.12.2021 550).

Key activities of If P&C Insurance AS and its branches

If offers the complete range of P&C insurance products to private individuals and corporate customers in the Baltic countries. If is currently the fourth-largest P&C insurer in the Baltic region combined.

The war in Ukraine and restrictions imposed on Russia and Belarus have had impacts also on offering certain insurance products, mainly in terms of travel and transportation insurance. If has kept customers updated of various changes. Also, due to the changes in economy, If has explained inflation and its influence on insurance prices to customers. As it is visible that prices of spare parts, building materials and repairs have risen, this is an area to keep attention in the future as well.

After the reduction in marketing activities in the first quarter of the year, If has significantly increased its visibility in the second quarter, focusing mainly on communication about different products.

In May If employees celebrated Diversity & Inclusion week in the Baltics, the whole week full of different activities to build bridges among ourselves, because we believe that people`s unique experience, know-how and characteristics enrich each other.

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q2 2022	Q2 2021
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		45,743	39,266
Premiums ceded		-1,076	-1,179
TOTAL	2	44,667	38,087
OTHER INCOME			
Investment result	3	851	544
Reinsurance commissions and other income		75	83
TOTAL		926	627
TOTAL REVENUE		45,593	38,714
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-28,852	-23,957
Reinsurers' share of claims incurred		-326	2
TOTAL	4	-29,178	-23,955
EXPENSES			
Insurance contract acquisition costs		-6,825	-5,980
Administrative expenses		-4,017	-3,530
TOTAL	5	-10,842	-9,510
TOTAL CLAIMS AND EXPENSES		-40,020	-33,465
NET RESULT BEFORE TAXES		5,573	5,249
INCOME TAX		-362	248
NET PROFIT FOR THE FINANCIAL PERIOD		5,211	5,497
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS			
Change in the value of available-for-sale assets		-13,360	-135
TOTAL		-13,360	-135
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		-8,149	5,362

STATEMENT OF COMPREHENSIVE INCOME

€000	Note	Q1-Q2 2022	Q1-Q2 2021
PREMIUMS EARNED, NET OF REINSURANCE			
Premiums earned, gross		88,463	76,526
Premiums ceded		-2,148	-2,209
TOTAL	2	86,315	74,317
OTHER INCOME			
Investment result	3	1,506	1,164
Reinsurance commissions and other income		182	194
TOTAL		1,688	1,358
TOTAL REVENUE		88,003	75,675
CLAIMS INCURRED, NET OF REINSURANCE			
Claims incurred, gross		-57,288	-46,237
Reinsurers' share of claims incurred		-589	316
TOTAL	4	-57,877	-45,921
EXPENSES			
Insurance contract acquisition costs		-13,124	-11,719
Administrative expenses		-8,113	-6,995
TOTAL	5	-21,237	-18,714
TOTAL CLAIMS AND EXPENSES		-79,114	-64,635
NET RESULT BEFORE TAXES		8,889	11,040
INCOME TAX		-3,625	-3,545
NET PROFIT FOR THE FINANCIAL PERIOD		5,264	7,495
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS			
Change in the value of available-for-sale assets		-21,779	-288
TOTAL		-21,779	-288
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		-16,515	7,207

STATEMENT OF FINANCIAL POSITION

€000	Note	30 June 2022	31 December 2021
ASSETS			
Cash and cash equivalents		46,475	78,327
Financial investments	7	282,933	276,198
Receivables related to insurance activities	6	49,146	36,267
Accrued income and prepaid expenses		5,541	4,551
Reinsurance assets	9	6,415	6,260
Investment in subsidiary		88	88
Property, plant and equipment	8	3,145	3,641
TOTAL ASSETS		393,743	405,332
LIABILITIES AND EQUITY			
Liabilities related to insurance activities		8,470	7,705
Lease liabilities		2,951	3,471
Accrued expenses and deferred income		8,303	7,847
Deferred tax liability		83	40
Liabilities arising from insurance contracts	9	230,897	208,616
Total liabilities		250,704	227,679
Share capital		6,391	6,391
Share premium		3,679	3,679
Mandatory capital reserve		2,362	2,362
Fair value reserve		-17,068	4,710
Retained earnings		142,411	142,341
Net profit for the year		5,264	18,170
Total equity		143,039	177,653
TOTAL LIABILITIES AND EQUITY		393,743	405,332

STATEMENT OF CHANGES IN EQUITY

€000

	Share capital	Share premium	Mandatory capital reserve	Fair value reserve	Retained earnings	Net profit for the year	Total equity
At 1 January 2021	6,391	3,679	2,362	7,268	160,541	-	180,241
Dividends paid ¹⁾	-	-	-	-	-18,200	-	-18,200
Other comprehensive income	-	-	-	-2,558	-	-	-2,558
Net profit for the year	-	-	-	-	-	18,170	18,170
At 31 December 2021	6,391	3,679	2,362	4,710	142,341	18,170	177,653
At 1 January 2022	6,391	3,679	2,362	4,710	160,511	-	177,653
Dividends paid ¹⁾	-	-	-	-	-18,100	-	-18,100
Other comprehensive income	-	-	-	-21,778	-	-	-21,778
Net profit for the year	-	-	-	-	-	5,264	5,264
At 30 June 2022	6,391	3,679	2,362	-17,068	142,411	5,264	143,039

- ¹⁾ In March 2022, the Company distributed 18.1 million euros (2021: 18.2 million euros) in dividends to the sole shareholder. In accordance with the Estonian Income Tax Act, income tax cost in amount of 3.6 million euros on the dividend distributed from the profit earned by the Company in Estonia, is recognized in the period of dividend payment, therefore related income tax expense appeared in the statement of comprehensive income. Dividend distributed from the profit earned by Latvian or Lithuanian branches is taxed in the respective country and is exempt from the corporate income tax in Estonia when distributing further to the sole shareholder of the Company.

STATEMENT OF CASH FLOWS

€000	Note	Q1-Q2 2022	Q1-Q2 2021
Cash flow from operating activities			
Cash flow from insurance operations			
Premiums received	2	94,753	79,564
Premiums ceded	2	-2,611	-3,029
Claims paid, incl. claims handling expenses	4, 5	-54,008	-45,650
Cash flow from reinsurance		415	182
Employee-related and service-related expenses		-21,528	-19,857
TOTAL		17,020	11,210
Cash flow from asset management			
Investments in bonds and other interest-bearing securities		-72,197	-9,918
Proceeds from disposals of bonds and other interest-bearing securities		43,542	18,653
Proceeds from term deposits		-	5,000
Interest received		1,968	2,359
Interest paid		-142	-4
TOTAL		-26,829	16,090
Income tax paid		-3,446	-3,926
Net cash flow from operating activities		-13,254	23,374
Cash flow from investing activities			
Purchase of property, plant and equipment		-	-104
Net cash flow from investing activities		-	-104
Cash flow from financing activities			
Dividends paid		-18,100	-18,200
Repayment of lease liability		-498	-651
Net cash flow from financing activities		-18,598	-18,851
Change in cash flow		-31,852	4,419
Cash and cash equivalents at beginning of reporting period		78,327	52,880
Cash and cash equivalents at end of reporting period		46,475	57,299

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Note 1. Accounting principles and basis of estimations used in the preparation of the financial statements

This interim report has been prepared in conformity with the IAS 34 “Interim Financial Reporting” requirements for condensed interim financial statements.

The If P&C Insurance AS annual report for the financial year ended 31 December 2021 was prepared in conformity with the IFRS and the interpretations issued by IFRIC, which have been approved by the EU. The applied standards and interpretations are described in Company’s accounting policies for the financial year 2021. The financial statements are available on Company’s website at www.if.ee.

Though the company forms the group together with its subsidiary Support Services AS and is the consolidating entity, the Company has elected in accordance with IFRS 10 paragraph 4 not to present consolidated financial statements and presented only separate financial statements. The Company is a wholly-owned subsidiary of If P&C Insurance Holding Ltd (publ) and the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS). Consolidated financial statements of the parent are available at websites www.if.se and www.sampo.com under section *Figures-Annual report*.

Note 2. Premiums earned, net of reinsurance

€000	Q1-Q2 2022	Q1-Q2 2021
Premiums written, gross	107,236	87,280
Change in the provision for unearned premiums	-18,773	-10,754
Premiums earned, gross	88,463	76,526
Reinsurance premiums	-3,105	-2,840
Change in the provision for unearned premiums	957	631
Premiums ceded	-2,148	-2,209
TOTAL	86,315	74,317

Note 3. Investment result

€000	Q1-Q2 2022	Q1-Q2 2021
<u>Interest income/expense on:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	1,657	1,494
Loans and receivables		
Cash and cash equivalents	-	1
Lease liabilities		
	-3	-5
TOTAL	1,654	1,490
<u>Gain from the disposal of:</u>		
Available-for-sale financial assets		
Bonds and other interest-bearing securities	164	233
TOTAL	164	233
<u>Gain/loss from the change in the value of:</u>		
Exchange rate changes		
	-30	-40
TOTAL	-30	-40
Investment expenses	-282	-519
TOTAL INVESTMENT RESULT	1 506	1,164
Reconciliation of the fair value reserve of available-for-sale financial assets		
	Q1-Q2 2022	Q1-Q2 2021
Opening balance, available-for-sale financial assets	4,710	7,268
Changes in fair value during the year, recognised in other comprehensive income	-21 942	-55
Realised gain recognised in profit or loss	164	-233
Closing balance, available-for-sale financial assets	-17 068	6,980
 Change in the fair value reserve of available-for-sale financial assets during the year	 -21,778	 -288

Note 4. Claims incurred, net of reinsurance

€000	Q1-Q2 2022	Q1-Q2 2021
Gross		
Claims paid related to the reporting period	-34,769	-29,557
Claims paid related to previous periods	-22,135	-18,174
Amounts recovered from salvage and subrogation	5,645	4,511
Change in the provision for claims outstanding	-3,508	-788
Claims handling expenses	-2,521	-2,230
TOTAL	-57,288	-46,238
Reinsurers' share		
Claims paid related to the reporting period	-	4
Claims paid related to previous periods	209	97
Change in the provision for claims outstanding	-798	215
TOTAL	-589	316
Net		
Claims paid related to the reporting period	-34,769	-29,553
Claims paid related to previous periods	-21,926	-18,077
Amounts recovered from salvage and subrogation	5,645	4,511
Change in the provision for claims outstanding	-4,306	-573
Claims handling expenses	-2,521	-2,230
TOTAL	-57,877	-45,922

Note 5. Expenses

€000	Q1-Q2 2022	Q1-Q2 2021
Salaries and remuneration	-10,418	-9,511
Social security costs	-2,223	-2,007
Other personnel expenses	-970	-691
Total personnel expenses	-13,612	-12,209
Commissions to intermediaries	-5,412	-4,826
Data processing	-1,398	-1,116
Expenses on premises	-994	-1,024
Office expenses (incl. communication expenses)	-367	-303
Other operating expenses	-1,975	-1,467
TOTAL	-23,758	-20,945

Division of costs on the basis of functions:

Insurance contract acquisition costs	-13,124	-11,719
Administrative expenses	-8,113	-6,995
Claims handling expenses	-2,521	-2,231
TOTAL	-23,758	-20,945

Note 6. Receivables related to insurance activities

€000	30 June 2022	31 Dec 2021
Receivables related to direct insurance activities, incl.	48,172	35,849
- policyholders	42,475	30,658
- intermediaries	3,066	2,776
- subrogation with significant recoverability	1,951	1,680
- salvages	284	331
- other	396	404
Receivables related to reinsurance	224	291
- incl. from related parties	-	29
Other receivables	750	127
TOTAL	49,146	36,267

Note 7. Financial investments

€000	30 June 2022	31 Dec 2021
Available-for-sale financial assets		
Bonds and other interest-bearing securities		
- listed	277,002	267,599
- unlisted	5,931	8,599
Incl. with a floating interest rate	4,173	8,224
Incl. with a fixed interest rate (0.125 -3.0%; 31.12.2020: 0.125%-3.0%)	278,760	267,974
TOTAL	282,933	276,198
TOTAL FINANCIAL INVESTMENTS	282,933	276,198

Bonds and other interest-bearing securities by issuers

€000	30 June 2022	31 Dec 2021
Issued by Estonian financial institutions	1,751	3,850
Issued by Estonian companies	1,497	1,522
Issued by foreign governments	2,404	2,571
Issued by foreign financial institutions	137,501	113,150
Issued by foreign companies	139,780	155,105
TOTAL	282,933	276,198

Ratings of bond issuers (S&P)

	Percentage of fair value	
	30 June 2022	31 Dec 2021
AAA	2.1%	2.2%
AA+ until AA-	4.8%	8.7%
A+ until A-	21.8%	15.4%
BBB+ until BBB-	53.7%	50.4%
BB	1.3%	1.8%
Non rated	16.3%	21.5%
TOTAL	100%	100%

Bonds and other interest-bearing securities by maturity terms

€000	30 June 2022	31 Dec 2021
Up to 1 year	16,271	20,184
1-2 years	74,605	62,109
2-5 years	154,502	160,957
5-10 years	37,555	32,948
TOTAL	282,933	276,198

Note 8. Property, plant and equipment

€000	Right-of-use: Buildings	Other PPE	TOTAL
Net book value as at 31 December 2020	2,768	392	3,160
Acquisition	1,936	60	1,996
Disposal	-	-365	-365
Sales	-	-12	-12
Acquisition cost as at 31 December 2021	7,325	1,262	8,587
-incl. fully depreciated	-	947	947
Depreciation charge for the year	-1,227	-152	-1,379
Depreciation charge of sales and disposals	-	240	240
Accumulated depreciation as at 31 December 2021	-3,848	-1,098	-4,946
Net book value as at 31 December 2021	3,477	164	3,641
Acquisition	23	51	74
Reclassification	-45	-	-45
Write-off	-	-	-
Sales	-	-	-
Acquisition cost as at 30 June 2022	7,303	1,313	8,616
-incl. fully depreciated	-	952	952
Depreciation charge for the year	-495	-30	-525
Accumulated depreciation as at 30 June 2022	-4,343	-1,128	-5,471
Net book value as at 30 June 2022	2,960	185	3,145

Note 9. Liabilities arising from insurance contracts and reinsurance assets

€000	30 June 2022	31 Dec 2021
Gross		
Provision for incurred and reported claims and claims handling expenses	109,105	107,640
Provision for incurred but not reported claims	30,133	28,089
Provision for unearned premiums	91,659	72,887
TOTAL	230,897	208,616
Reinsurer's share		
Provision for incurred and reported claims and claims handling expenses	4,107	4,889
Provision for incurred but not reported claims	255	270
Provision for unearned premiums	2,053	1,101
TOTAL	6,415	6,260
Net		
Provision for incurred and reported claims and claims handling expenses	104,998	102,751
Provision for incurred but not reported claims	29,878	27,819
Provision for unearned premiums	89,606	71,786
TOTAL	224,482	202,356

Note 10. Related party transactionsRelated parties

The company's shareholders, enterprises under the joint control of or enterprises controlled by the company, the company's staff, Management Board and Supervisory Board members, their close relatives and other individuals over whom the above persons have significant influence, are considered related parties.

Transactions with members of the Management Board and members of the Supervisory Board

The Management Board members received a total of €727 thousand in remuneration, including social tax (Q2 2021: €587 thousand). During the reporting period, no severance fee was paid to Management Board members (Q2 2021: €0). No remuneration was paid to members of the Supervisory Board.

Insurance contracts with total premiums of €7 thousand were concluded with the management individuals in the financial period (Q2 2021: €4 thousand).

Reinsurance transactions with group companies

The company has concluded reinsurance contracts with If P&C Insurance Ltd (publ).

€000	Calculated reinsurance premiums		Indemnifications and commissions received	
	Q1-Q2 2022	Q1-Q2 2021	Q1-Q2 2022	Q1-Q2 2021
If P&C Insurance Ltd (publ)	2,277	1,628	14	7

Receivables and payables related to the above transactions as at:

€000	30 June 2022	31 Dec 2021
Receivables		
If P&C Insurance Ltd (publ)	-	29

€000	30 June 2022	31 Dec 2021
Payables		
If P&C Insurance Ltd (publ)	1,448	913

Other related party transactions, transactions with other group companies

€000	Services purchased		Services rendered	
	Q1-Q2 2022	Q1-Q2 2021	Q1-Q2 2022	Q1-Q2 2021
Mandatum Life Insurance Baltic SE	-	-	2	8
Nordea Group companies	29	37	-	-
If P&C Insurance Ltd (publ)	121	6	117	121
Sampo plc	-	329	-	-
If IT Services A/S	332	199	-	-
Total	482	571	119	129

There are no receivables but following payables related to the above transactions as at:

€000	30 June 2022	31 Dec 2021
Payables		
Mandatum Life Insurance Baltic SE	-	-
Sampo plc	-	-
If P&C Insurance Ltd (publ)	62	68
If IT Services A/S	94	57
Total	156	125

If Insurance has acquired financial assets and has earned investment income from the following group companies:

€000	30 June 2022	31 Dec 2021
Financial assets		
Nordea Group companies	4,661	5,100

€000	Q1-Q2 2022	Q1-Q2 2022
Investment income/expense		
Nordea Group companies	36	22